

**REPORT OF THE AUDIT OF THE
SHELBY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SHELBY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Shelby County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances decreased by \$371,371 from the beginning of the year, resulting in a cash surplus of \$10,384,453 as of June 30, 2003.

Debt Obligations:

Total bonded debt principal as of June 30, 2003, was \$4,795,000. Future collections of \$6,949,463 are needed over the next 18 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$825,000 as of June 30, 2003. Future principal and interest payments of \$1,089,178 are needed to meet these obligations.

Report Comment:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Rob Rothenburger, Shelby County Judge/Executive

Members of the Shelby County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Shelby County, Kentucky, as of June 30, 2003, the statement of cash receipts, cash disbursements, and changes in cash balances-all governmental fund types; the statement of cash receipts, cash disbursements, and changes in cash balance-proprietary fund type; and the related statement of cash flows-proprietary fund type for the year then ended. These financial statements are the responsibility of the Shelby County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Shelby County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Shelby County, Kentucky, as of June 30, 2003, the revenues received and expenditures paid, and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
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Members of the Shelby County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated April 30, 2004, on our consideration of Shelby County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Shelby County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comments:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 30, 2004

SHELBY COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

Rob Rothenburger	County Judge/Executive
Tony Carriss	Magistrate
Jim Robertson	Magistrate
Cordy Armstrong	Magistrate
Michael Riggs	Magistrate
Betty Curtsinger	Magistrate
Hubert Pollett	Magistrate
Allen Ruble	Magistrate

Other Elected Officials:

Charles Hickman	County Attorney
Bobby Waits	Jailer
Sue Carole Perry	County Clerk
Kathy Nichols	Circuit Court Clerk
Mike Armstrong	Sheriff
Brad McDowell	Property Valuation Administrator
Tommy Sampson	Coroner

Appointed Personnel:

Paula Webb	County Treasurer
James Ray Wiley	Occupational Tax Collector
Karen Blake	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

SHELBY COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Debt Service</u>	<u>Enterprise</u>	
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 10,271,541	\$ 215,737	\$ 77,214	\$ 10,564,492
Total Assets	\$ 10,271,541	\$ 215,737	\$ 77,214	\$ 10,564,492
<u>Other Resources</u>				
Amounts to be Provided in Future Years for:				
Capital Lease (Notes 4 and 5)	\$ 520,000	\$ 305,000	\$	825,000
Bond Payments (Note 6)	4,795,000			4,795,000
Total Other Resources	\$ 5,315,000	\$ 305,000	\$ 0	\$ 5,620,000
Total Assets and Other Resources	<u>\$ 15,586,541</u>	<u>\$ 520,737</u>	<u>\$ 77,214</u>	<u>\$ 16,184,492</u>

The accompanying notes are an integral part of the financial statements.

SHELBY COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

	Governmental Fund Types		Proprietary Fund Types	Totals (Memorandum Only) Primary Government
	General	Debt Service	Enterprise	
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Capital Lease (Notes 4 and 5)	\$ 520,000	\$ 305,000	\$	\$ 825,000
Bonds:				
Series 1999 (Note 6)	4,795,000			4,795,000
Payroll Liabilities	173,367			173,367
Total Liabilities	<u>\$ 5,488,367</u>	<u>\$ 305,000</u>	<u>\$ 0</u>	<u>\$ 5,793,367</u>
<u>Equity</u>				
Retained Earnings:				
Restricted	\$	\$	\$ 77,214	\$ 77,214
Fund Balances:				
Reserved	230,154	215,737		445,891
Unreserved	9,868,020			9,868,020
Total Equity	<u>\$ 10,098,174</u>	<u>\$ 215,737</u>	<u>\$ 77,214</u>	<u>\$ 10,391,125</u>
Total Liabilities and Equity	<u>\$ 15,586,541</u>	<u>\$ 520,737</u>	<u>\$ 77,214</u>	<u>\$ 16,184,492</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES

SHELBY COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 8,301,676	\$ 1,462,272	\$ 885,029	\$ 29,442
Other Financing Sources:				
Transfers In		235,000	618,450	
Kentucky Advance Revenue Program	1,358,800			
Total Cash Receipts	<u>\$ 9,660,476</u>	<u>\$ 1,697,272</u>	<u>\$ 1,503,479</u>	<u>\$ 29,442</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 6,205,551	\$ 2,185,370	\$ 1,506,315	\$
Other Financing Uses:				
Transfers Out	1,832,005			
Bonds:				
Principal Paid	140,000			
Capital Lease Principal	55,000			
Kentucky Advance Revenue Program Repaid	1,358,800			
Total Cash Disbursements	<u>\$ 9,591,356</u>	<u>\$ 2,185,370</u>	<u>\$ 1,506,315</u>	<u>\$ 0</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 69,120	\$ (488,098)	\$ (2,836)	\$ 29,442
Cash Balance - July 1, 2002*	<u>8,187,753</u>	<u>1,965,731</u>	<u>51,076</u>	<u>45,659</u>
Cash Balance - June 30, 2003*	<u><u>\$ 8,256,873</u></u>	<u><u>\$ 1,477,633</u></u>	<u><u>\$ 48,240</u></u>	<u><u>\$ 75,101</u></u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

SHELBY COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
 AND CHANGES IN CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

General Fund Type			Debt Service Fund Type		
Emergency Medical Services Fund	Revolving Fund	Community Development Block Grant Fund	Special Fund	Totals (Memorandum Only)	
\$ 955,018	\$ 520	\$	\$ 36,419	\$ 11,670,376	
978,555				1,832,005	
				1,358,800	
<u>\$ 1,933,573</u>	<u>\$ 520</u>	<u>\$</u>	<u>\$ 36,419</u>	<u>\$ 14,861,181</u>	
\$ 1,945,324	\$ 4	\$	\$ 17,042	\$ 11,859,606	
				1,832,005	
				140,000	
				17,000	
				72,000	
				1,358,800	
<u>\$ 1,945,324</u>	<u>\$ 4</u>	<u>\$ 0</u>	<u>\$ 34,042</u>	<u>\$ 15,262,411</u>	
\$ (11,751)	\$ 516	\$	\$ 2,377	\$ (401,230)	
15,251	229,638	1	213,360	10,708,469	
<u>\$ 3,500</u>	<u>\$ 230,154</u>	<u>\$ 1</u>	<u>\$ 215,737</u>	<u>\$ 10,307,239</u>	

The accompanying notes are an integral part of the financial statements.

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STATEMENET OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

SHELBY COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Enterprise Fund Type</u>
<u>Cash Receipts</u>	<u>Jail Canteen Fund</u>
Receipts - Jail Canteen	\$ 137,755
Total Cash Receipts	\$ 137,755
 <u>Cash Disbursements</u>	
Expenditures - Jail Canteen	\$ 107,896
Total Cash Disbursements	\$ 107,896
Excess of Cash Receipts Over Cash Disbursements	\$ 29,859
Cash Balance - July 1, 2002	47,355
Cash Balance - June 30, 2003	\$ 77,214

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

SHELBY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Enterprise Fund Type</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities:	
Operating Income	<u>\$ 29,859</u>
Net Cash Provided By Operating Activities	<u>\$ 29,859</u>
Net Increase in Cash and Cash Equivalents	\$ 29,859
Cash and Cash Equivalents - July 1, 2002	<u>47,355</u>
Cash and Cash Equivalents - June 30, 2003	<u><u>\$ 77,214</u></u>

The accompanying notes are an integral part of the financial statements.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Shelby County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Shelby County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Shelby County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Shelby County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Shelby County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Emergency Medical Services Fund, Revolving Fund, and the Community Development Block Grant Fund.

2) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Special Fund. Debt service is provided through receipts of the Special Fund (See Note 4)

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

3) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Shelby County Enterprise Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Shelby County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. For the purposes of the statement of cash flows the county considers all investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Shelby County Fiscal Court: US 60 Water District and West Shelby Water District.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 3. Deposits and Investments

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$166,489 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2002.

	<u>Bank Balance</u>
Insured by FDIC	\$ 701,254
Collateralized with securities held by the county's agent in the county's name	5,541,419
Collateralized with securities held by pledging depository institution in the county's name	5,043,824
Uncollateralized and uninsured	<u>166,489</u>
Total	<u>\$ 11,452,986</u>

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 3. Deposits and Investments (Continued)

B. Investments

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name. Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

Types of Investments	Category			Carrying Amount	Market Value
	1	2	3		
Federal Money					
Market Funds	\$ 210,320	\$	\$	\$ 210,320	\$ 210,320
U.S. Treasury					
Bills	1,366,108			1,366,108	1,366,108
Totals	<u>\$ 1,576,428</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,576,428</u>	<u>\$ 1,576,428</u>

Note 4. Notes Receivable, Capital Leases, and Liability - Special Fund

1) US 60 Water District (Woodlawn)

On November 1, 1993, Shelby County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$237,000. The purpose of the lease was for waterline extension. The project was subleased to the US 60 Water District. During the fiscal year, the county received \$12,000 principal and \$7,173 interest from the US 60 Water District. The county then paid this money to Bank One (the trustee). The balance of the receivable and the liability on June 30, 2003, was \$148,000.

2) US 60 Water District (Rockbridge)

On August 7, 1996, Shelby County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$80,000. The purpose of the lease was for construction of rural water lines. The project was subleased to the US 60 Water District. During the fiscal year, the county received \$3,000 principal and \$3,531 interest from the US 60 Water District. The county then paid this money to Bank One (the trustee). The balance of the receivable and the liability on June 30, 2003, was \$63,000.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Notes Receivable, Capital Leases, and Liability - Special Fund (Continued)

3) Mt. Eden Fire District

On September 11, 2000, Shelby County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$98,000. The purpose of the lease was for the construction of a firehouse. The project was subleased to the Mt. Eden Fire District. During the fiscal year, the county received \$2,000 principal and \$5,807 in interest from Mt. Eden Fire District. The county then paid this money to National City (the trustee). The balance of the receivable and the liability on June 30, 2003, was \$94,000.

The following is a schedule of future minimum lease payments as of June 30, 2003.

Year	US 60 Water District (Woodlawn)	US 60 Water District (Rockbridge)	Mt. Eden Fire District	Total
2004	\$ 19,870	\$ 7,019	\$ 7,684	\$ 34,573
2005	20,187	7,797	7,561	35,545
2006	19,472	7,536	7,437	34,445
2007	19,733	7,276	8,257	35,266
2008	18,963	7,016	8,072	34,051
2009-2013	94,044	35,647	37,586	167,277
2014-2018		21,023	38,006	59,029
2019-2023			36,514	36,514
2024-2026			20,331	20,331
Total Minimum Lease	\$ 192,269	\$ 93,314	\$ 171,448	\$ 457,031
Payment Less Interest	(44,269)	(30,314)	(77,448)	(152,031)
Present Value of Minimum Payment Lease Payments	\$ 148,000	\$ 63,000	\$ 94,000	\$ 305,000

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Capital Lease - General Fund

On June 21, 2011 the County entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust for the construction of sewer lines. The lease term for this agreement is 10 years with the balance to be paid in full January 20, 2011. The total balance of the agreement was \$520,000 as of June 30, 2003.

The following is a schedule of future minimum lease payments as of June 30, 2003:

Meadow Brook Sewer Project	
Year	
2004	\$ 79,961
2005	82,095
2006	79,082
2007	80,964
2008	77,700
2009-2011	<u>232,345</u>
Total Minimum Lease	\$ 632,147
Payment Less Interest	<u>(112,147)</u>
Present Value of Minimum Payment Lease Payments	<u>\$ 520,000</u>

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. General Obligation Bonds - General Fund

Shelby County Fiscal Court (County) issued general obligation bonds of 5,200,000, series 1999, dated April 1, 1999, to fund the acquisition and construction of the Clear Creek Family Activities Center. These bonds were issued at varying interest rates ranging from 3.40% to 4.85%, and will be retired by August 1, 2020. Interest payments are due on February 1 and interest and principal August 1. Fiscal Court has entered into a lease agreement with the City of Shelbyville (City) and the Shelbyville/Shelby County Parks and Recreation Commissions (Parks Commission) for their portion of the bond issue. The City is responsible for \$500,000 in principal and interest payments; the Parks Commission \$2,200,000 in principal and interest payments and the County 2,500,000 in principal and interest. The City and the Parks Commission make their payments to the County, which in turn pays the paying agent. Principal payment requirements and scheduled interest for the retirement of the bonds are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 211,095	\$ 195,000
2005	203,490	200,000
2006	195,390	210,000
2007	186,836	215,000
2008	177,768	230,000
2009-2013	730,100	1,300,000
2014-2018	399,223	1,640,000
2019-2021	50,561	805,000
Totals	<u>\$ 2,154,463</u>	<u>\$ 4,795,000</u>

Note 7. Insurance

For the fiscal year ended June 30, 2003, Shelby County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

SHELBY COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 3,740,478	\$ 8,301,676	\$ 4,561,198
Road and Bridge Fund	1,304,033	1,462,272	158,239
Jail Fund	1,566,458	885,029	(681,429)
Local Government Economic Assistance Fund	25,992	29,442	3,450
Emergency Medical Services Fund	1,926,707	955,018	(971,689)
Revolving Fund		520	520
Community Development Block Grant Fund	520,481		(520,481)
<u>Debt Service Fund Type</u>			
Special Fund	<u>34,339</u>	<u>36,419</u>	<u>2,080</u>
Totals	<u>\$ 9,118,488</u>	<u>\$ 11,670,376</u>	<u>\$ 2,551,888</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above		\$ 9,118,488	
Add: Budgeted Prior Year Surplus		5,156,612	
Less: Other Financing Uses		<u>(212,000)</u>	
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures		<u>\$ 14,063,100</u>	

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SCHEDULE OF OPERATING REVENUE

SHELBY COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

Revenue Categories	GOVERNMENTAL FUND TYPES		Totals
	General Fund Type	Debt Service Fund Type	(Memorandum Only)
Taxes	\$ 5,505,977	\$	\$ 5,505,977
Excess Fees	572,349		572,349
Licenses and Permits	86,277		86,277
Intergovernmental Revenues	2,724,162	33,995	2,758,157
Charges for Services	959,152		959,152
Miscellaneous Revenues	1,599,465		1,599,465
Interest Earned	186,575	2,424	188,999
Total Operating Revenue	<u>\$ 11,633,957</u>	<u>\$ 36,419</u>	<u>\$ 11,670,376</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

SHELBY COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 2,728,657	\$ 2,427,068	\$ 301,589
Protection to Persons and Property	3,746,871	3,333,545	413,326
General Health and Sanitation	1,448,079	635,925	812,154
Social Services	447,537	390,034	57,503
Recreation and Culture	581,094	401,801	179,293
Roads	2,054,209	1,977,486	76,723
Debt Service	244,519	253,802	(9,283)
Administration	2,794,795	2,422,902	371,893
Total Operating Budget - General Fund Type	\$ 14,045,761	\$ 11,842,563	\$ 2,203,198
Other Financing Uses:			
General Obligation Bonds			
Principal	140,000	140,000	
Capital Lease Agreement-			
Principal on Lease	55,000	55,000	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 14,240,761</u>	<u>\$ 12,037,563</u>	<u>\$ 2,203,198</u>

SHELBY COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Expenditure Categories	DEBT SERVICE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Debt Service	\$ 17,339	\$ 16,512	\$ 827
Total Operating Budget - Debt Service Fund Type	\$ 17,339	\$ 16,512	\$ 827
Other Financing Uses:			
KACO Leasing Trust Equipment Lease- Principal	17,000	17,000	
TOTAL BUDGET - DEBT SERVICE FUND TYPE	\$ 34,339	\$ 33,512	\$ 827

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rob Rothenburger, Shelby County Judge/Executive
Members of the Shelby County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Shelby County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated April 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Shelby County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shelby County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 30, 2004

COMMENT AND RECOMMENDATION

SHELBY COUNTY
COMMENT AND RECOMMENDATION

For The Fiscal Year Ended June 30, 2003

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On August 31, 2002, \$166,489 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive Rob Rothenburger's Response:

We will examine bank pledges more frequently and make sure the pledges cover funds.

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CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

SHELBY COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

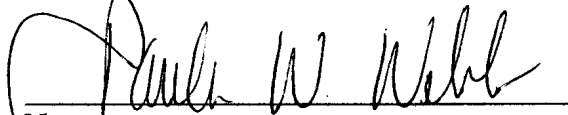
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS
SHELBY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Shelby County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A large, stylized handwritten signature in black ink, consisting of two main loops, positioned above a horizontal line.

Name
County Judge/Executive

A handwritten signature in black ink, appearing to read "Paul W. Nehl", positioned above a horizontal line.

Name
County Treasurer

